

Message Text

SECRET

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ACTION TRSE-00

INFO OCT-01 SS-14 ISO-00 ARA-10 EB-03 SAM-01 FEA-01 STR-01

COME-00 SPC-01 SCI-03 NSC-07 NSCE-00 CIAE-00 INR-10

NSAE-00 RSC-01 DRC-01 OMB-01 L-02 CIEP-01 SSO-00

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC IMMEDIATE 3184

INFO AMEMBASSY BRASILIA IMMEDIATE

AMCONSUL RIO DE JANEIRO IMMEDIATE

S E C R E T SECTION 1 OF 2 CARACAS 2699

LIMDIS

BRASILIA AND RIO FOR SECRETARY SHULTZ

DEPT PASS SECRETARY KISSINGER AND UNDER SECRETARY DONALDSON;

PASS TREASURY

EO 11652: GDS

TAGS: OVIP PFOR ENRG VE

SUBJECT: SECRETARY OF TREASURY SHULTZ'S CALL ON VENEZUELAN
PRESIDENT CARLOS ANDRES PEREZ

1. FOLLOWING HIS HOUR-LONG INTERVIEWS SEPARATELY WITH
PRESIDENT OF CENTRAL BANK LAFEE AND FINANCE MINISTER
HURTADO, SECRETARY SHULTZ ACCOMPANIED BY ASSISTANT TREASURY
SECRETARY HENNESSY AND MYSELF WERE RECEIVED AT MIRAFLORES
PALACE BY PRESIDENT CARLOS ANDRES PEREZ SHORTLY AFTER NOON
YESTERDAY (MARCH 28).

2. THROUGHOUT PEREZ WAS FRANK AND FIRM IN PRESENTING HIS
POINTS OF VIEW, WHILE MAINTAINING A FRIENDLY AND LOW-KEY TONE.

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3. AFTER BRIEF AMENITIES ON THE HONOR FOR VENEZUELA OF MRS. NIXON'S VISIT, HE WENT DIRECTLY TO THE PETROLEUM AND PRICE ISSUE, CITING HIS PREFERENCE FOR CANDIDNESS. HE REFERRED TO SECRETARY SHULTZ'S STATEMENT ON EVE OF HIS DEPARTURE FROM WASHINGTON WITH REGARD TO WHAT THE SECRETARY BELIEVED WAS AN UNNECESSARILY HIGH PRICE FOR PETROLEUM AND THE STIR IT HAD CAUSED IN VENEZUELAN PRESS.

4. PRESIDENT PEREZ USED THIS EVENT AS AN ILLUSTRATION OF NEED FOR THE US TO COMPREHEND THE VENEZUELAN REALITY AND POINT OF VIEW. HE WENT ON TO EXPLAIN IN DETAIL THE PROBLEMS OF POORER COUNTRIES IN GENERAL AND VENEZUELA IN PARTICULAR WITH SPECIFIC EMPHASIS ON THE NEED FOR A BETTER BALANCE BETWEEN THE PRICES OF THEIR RAW MATERIALS AND THE PRICES THEY HAD TO PAY FOR IMPORTED MANUFACTURED GOODS AND TECHNOLOGY. HE REFERRED TO THE FACT OF OVER A CENTURY OF LOW RAW MATERIALS PRICES (PARTICULARLY PETROLEUM) AND ONLY NOW THE EMERGENCE OF MORE BALANCE.

5. SHULTZ EXPLAINED THAT HIS STATEMENT WAS NOT ONE THAT PRICES "MUST COME DOWN" BUT WAS RATHER A VIEW BASED UPON OUR ANALYSIS OF THE OUTLOOK FOR PRICES, GIVEN THE ECONOMIC FACTORS AT WORK. HE EXPLAINED HIS ANALYSIS THAT HIGH OIL PRICES WOULD BRING INTO PLAY MARKET FORCES ON BOTH SUPPLY AND DEMAND SIDE SO THAT WITHOUT EVEN COUNTING ON UNDREAMED OF TECHNOLOGIES ONE COULD SEE FROM CONVENTIONAL AND OTHER KNOWN RESERVES A VERY LARGE NEW SUPPLY COMING ON STREAM. THE EXAMPLES OF THE US SHALE, VENEZUELAN AND CANADIAN TAR SANDS WERE GIVEN. THIS LED TO THE INEVITABLE CONCLUSION, HE SAID, THAT PETROLEUM PRICES WOULD OF NECESSITY DECLINE.

6. THE PRESIDENT SAID HE DID NOT AGREE WITH THIS ANALYSIS. ACCORDING TO HIS INFORMATION, THERE WOULD BE A GROWING DEMAND AMONG THE INDUSTRIALIZED NATIONS FOR CONVENTIONAL PETROLEUM AND AN INADEQUATE SUPPLY TO MEET THAT DEMAND, WITH THE RESULT THAT WORLD OIL PRICES WOULD REMAIN HIGH. ALTHOUGH HE RECOGNIZED SECRETARY SHULTZ'S ARGUMENT THAT ALTERNATIVE SOURCES OF ENERGY SUCH AS THE ATHABASCA TAR SANDS, SHALE AND COAL IN THE UNITED STATES AND EVEN THE ORINOCO TAR BELT, MIGHT ENTER INTO THE WORLD ENERGY SUPPLY PICTURE, THE DEVELOPMENT OF SUCH ALTERNATIVE SOURCES WOULD LIKEWISE BE OF VERY HIGH COST AND THUS, SAID HE, THE PRICE OF OIL

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WOULD NOT COME DOWN.

7. SHULTZ ADMITTED THERE WAS A DIFFERENCE OF ANALYSIS AND SUGGESTED THAT PERHAPS MORE ANALYTICAL WORK MIGHT BE DONE, SINCE A BOOM-BUST PATTERN OF PRICES WAS IN NO ONE'S INTEREST. PEREZ REITERATED HIS GREAT DESIRE FOR A BETTER BALANCE BETWEEN THE PRICES OF COMMODITIES AND MANUFACTURED GOODS. HE ADDED THAT HE SAW THE WASHINGTON ENERGY CONFERENCE AS FORMING A RICH

MAN'S BLOC AGAINST POOR. SHULTZ EXPLAINED THAT THE PURPOSE OF THE WASHINGTON ENERGY CONFERENCE WAS NOT TO DEVELOP A BLOC AGAINST THE OIL PRODUCERS AND THE POOR, BUT TO ESTABLISH A FACTUAL BASIS WHICH WOULD SERVE AS A POINT OF DEPARTURE FOR DIALOGUE AND UNDERSTANDING AMONG CONSUMER AND PRODUCER ALIKE. HE REITERATED OUR PURPOSE TOO OF FINDING COOPERATIVE SOLUTIONS AND AVOIDING CONFRONTATION.

8. SHULTZ ASSURED PRESIDENT PEREZ OF THE UNITED STATES' VERY REAL CONCERN FOR THE POORER COUNTRIES OF THE WORLD AND IN PARTICULAR OUR RECENT CONCERN LEST THESE LESS FORTUNATE NATIONS BE UNABLE TO PAY FOR OIL AT PRESENT PRICES AND THUS SET BACK THEIR DEVELOPMENT. AT THIS POINT PRESIDENT NOTED THAT US HAD BEEN SIDING WITH THE LDC'S IN SEEKING A COMMON POSITION ON OIL PRICES.

9. PRESIDENT PEREZ IN PICKING UP HIS THEME OF THE NEED FOR GREATER COMPREHENSION ON PART OF US ALLUDED TO THE FACT THAT IN RECENT YEARS THERE HAD BEEN AGREAT INCREASE IN "SOMETIMES IRRATIONAL AND PRIMITIVE" NATIONALISM

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S E C R E T SECTION 2 OF 2 CARACAS 2699

LIMDIS

BRASILIA AND RIO FOR SECRETARY SHULTZ

DEPT PASS SECRETARY KISSINGER AND UNDER SECRETARY DONALDSON;

PASS TREASURY

10. PRESIDENT PEREZ EXPRESSED GENUINE CONCERN ON THE NEED TO

AVOID A CONFRONTATION BETWEEN RICH AND POOR AT THE FORTHCOMING UN SPECIAL ASSEMBLY ON ENERGY. HE ASKED, "HOW CAN WE HAVE THE US ON OUR SIDE?"

11. THE PRESIDENT SAID THAT THE COUNTRIES OF THE WORLD HAD TO GET TOGETHER TO WORK OUT SOME SOLUTION FOR THE PROBLEM OF HIGH PRICES FOR INDUSTRIAL EXPORTS AND TECHNOLOGY. SECRETARY SHULTZ RESPONDED THAT HE WELCOMED THE IDEA OF COOPERATING TO AVOID CONFRONTATION AT U.N. PERHAPS THROUGH MORE OBJECTIVE ANALYSIS AND SUGGESTED HE SIT DOWN WITH HIS VENEZUELAN COLLEAGUE FINANCE MINISTER HURTADO IN SANTIAGO TO DISCUSS HOW SUCH AN APPROACH MIGHT BE PURSUED. SECRETARY SHULTZ SAID HE WOULD TELEGRAPH WASHINGTON BEFORE MEETING WITH FINANCE MINISTER HURTADO IN SANTIAGO TO GET THEIR

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IDEAS ON WAYS OF WORKING TOGETHER SUCH AS BY ESTABLISHING A BETTER ANALYTICAL BASIS FOR DIALOGUE. BOTH SHULTZ AND PRESIDENT PEREZ EXPRESSED A HOPE THAT THESE CONVERSATIONS MIGHT LEAD TO BETTER UNDERSTANDING ON ALL SIDES. INCIDENTALLY, IN DISCUSSING FORTHCOMING UN MEETING, PEREZ SAID THE CUBA PROBLEM WOULD COME UP. HE ALSO SAID EXPLICITLY THAT SPECIAL ASSEMBLY WOULD BE CONFRONTED BY POLITICAL PROBLEMS IN ADDITION TO THOSE OF A PURELY ECONOMIC CHARACTER.

12. ADVERTING TO THE SANTIAGO MEETING, PRESIDENT PEREZ WENT FURTHER THAN HAD HIS MINISTER OF FINANCE AN HOUR EARLIER (REPORTED SEPTEL), SAYING THAT HE HAD INSTRUCTED HURTADO NEXT WEEK IN SANTIAGO TO MAKE TWO FORMAL PROPOSALS WITH REFERENCE TO THE STRUCTURE OF THE INTER-AMERICAN DEVELOPMENT BANK. THE FIRST WOULD BE TO OFFER A VENEZUELAN CAPITAL CONTRIBUTION TO A SPECIAL TRUST FUND OF UNSPECIFIED DIMENSIONS; AND THE SECOND WOULD BE TO CALL FOR AN AMENDMENT OF THE BANK'S CONSTITUTION THROUGH AN INCREASE IN THE CAPITAL WHICH IN EFFECT WOULD ELIMINATE THE UNITED STATES VETO.

13. THE PRESIDENT AT NO TIME MENTIONED PROBABLE EARLY REVERSION OF OIL COMPANY ASSETS IN VENEZUELA, AS HAD HURTADO IN HIS CONVERSATION WITH THE SECRETARY, BUT CONFINED HIS OBSERVATION ON PETROLEUM LARGELY TO THE QUESTION OF THE ALLEGED VALIDITY OF PRESENT HIGH PRICES. HE STRESSED OVER AND OVER AGAIN THE NEED FOR THE NATIONS OF THE WORLD TO GET TOGETHER TO ACHIEVE A FAIRER BALANCE OF PRICES FOR ALL ESSENTIAL COMMODITIES. HE HOPED THE INITIATIVES TAKEN BY SECRETARY KISSINGER AT MEXICO CITY COULD CONTINUE UNDER STUDY WITH THE HOPE OF REACHING THE STAGE OF POSITIVE ACTION AND SAID HE BELIEVED THAT MEETING HAD HAD A POSITIVE EFFECT ON US-LATIN AMERICAN RELATIONS.

14. IN CLOSING, THE PRESIDENT REAFFIRMED EARNESTLY THE DESIRE OF VENEZUELA TO BE A LOYAL SUPPORTER OF THE UNITED STATES AND ADDED THE NECESSITY TO RESOLVE THE PROBLEMS HE HAD CITED TO MAKE THAT POSSIBLE. HE SAID, "HELP US DO THIS," AND CITED SECRETARY

SHULTZ'S EARLIER REMARK THAT DEEDS WERE MORE IMPORTANT THAN WORDS.

15. SHULTZ THANKED PRESIDENT AND EXPLAINED THAT PRESIDENT NIXON HAD GIVEN HIM EXPRESS INSTRUCTIONS TO COME, LISTEN AND LEARN--

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THAT WAS WHY HE DID NOT GO DIRECTLY TO SANTIAGO--AND THAT HE WAS MOST APPRECIATIVE OF THE TIME GIVEN HIM BY THE PRESIDENT AND HIGH OFFICIALS OF HIS GOVERNMENT.

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